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Honorable Mayor and Common Council
City of Waukesha
Waukesha, Wisconsin

Dear Honorable Mayor and Common Council Members:

In planning and performing our audit of the financial statements of the City of Waukesha (City) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion of the effectiveness of its internal control.

A separate Report on Internal Control was issued to the Waukesha Water Utility Commission. The information contained in that report is not included with this letter.

Our consideration of the City's internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses.

- > Internal Control over Financial reporting
- > Segregation of duties

This communication is intended solely for the information and use of the Common Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 19, 2010

MATERIAL WEAKNESSES

Internal Control over Financial Reporting

In theory, a properly designed system of internal controls consists of enough people to process and record monthly transactions, as well as prepare a complete set of annual financial statements. However, while most municipalities' staff has the time needed for monthly reporting and the processing and recording of monthly transactions, the reality is that very few have the time needed to prepare annual financial statements.

Internal controls should provide the City with the ability to prepare a complete set of yearend financial statements for the auditor to test. This high level of internal control over financial reporting can be a difficult task for governments. As opposed to large private companies, most governments operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare the year end entries and financial reporting. As this is the case with your municipality, we are now required to inform you that this is a material weakness in your internal controls.

Segregation of Duties

An ideal accounting system includes many procedures and controls designed to limit the access of any one individual to assets. However, the size of your transit department precludes large administrative staff or complex controls. This is not unusual for this type of department but we are required to inform you that this condition exists.

Because some of these accounting system controls do not exist, you must rely more heavily on your direct knowledge of the department's operations and day to day contact with employees to control and safeguard assets.

OTHER COMMENTS AND RECOMMENDATIONS

Journal Entries

Journal entries serve the purpose of recording transactions that were not processed through the normal accounts receivable/revenue or accounts payable/payroll expenditure system, or to adjust transactions that did not go through the normal transaction system. We found during our testing of thirty two transactions that one did not have approval by someone other than the preparer. This appears to be an isolated situation however to maintain proper control over this function, we recommend that closer attention be given to the approval of journal entries.

GASB No. 51: Accounting and Financial Reporting for Intangible Assets

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software (purchased or internally written).

Statement No. 51 requires that all intangible assets be classified as capital assets (except for a few minor exclusions). Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to intangible assets, as applicable.

That means that you should treat costs incurred for intangible assets the same as you would treat costs incurred for other capital assets like a truck or building. Intangible assets will be written off over their useful lives (using amortization).

You are also required to implement the new rules retroactively. That means if you have intangible assets that were acquired in previous years, you will need to go back and determine those costs so that you can record the asset and amortization currently. Those amounts should be recorded as of January 1, 2010. Assets with indefinite useful lives (such as easements) and internally generated software are exempt from the retroactive calculation.

These new rules are effective for your year ending December 31, 2010. We can assist you with the details of the accounting aspects of this requirement at the appropriate time.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

GASB No. 54: Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, which changes governmental financial reporting. These changes will affect your financial statements for the year ended December 31, 2011, primarily the governmental fund's balance sheet presentation. No changes are necessary for proprietary fund types or government-wide statements. The major change is to the terminology used for fund balance reporting. The terms reserved, unreserved, designated, and undesignated are being replaced with the following categories: nonspendable, restricted, committed, assigned, and unassigned. The new categories are designed to promote more consistent financial reporting throughout the nation.

The GASB made these changes to fund balance reporting to make it easier for the reader of financial statements to determine the various levels of restrictions that exist for the future use of fund balance. In addition to the new method for displaying fund balances, the Statement also clarifies the definitions of the various governmental fund types. You will want to understand the new rules in time for you to make necessary changes for your 2011 budget. These changes could impact state aid calculations. You will also need to consider adopting fund balance policies so that options available in GASB No. 54 can be fully used by your government. We can assist you with getting ready for these changes.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

Information Technology Controls

The implementation of the auditing standards (#104-111) are intended to improve the auditors' understanding of the environment in which the City of Waukesha operates and its internal controls over financial reporting. Information technology is a significant part of the financial environment. As such we have evaluated the information technology controls as they relate to financially significant applications. Our procedures primarily focused on documenting and evaluating general computer controls, including:

- > Systems development and deployment
- > Change and incident management
- > Logical and physical access to data and applications
- > Data backup and recovery

Change Management Standards, Policies and Procedures

The City does not have a formally documented change management process. Significant updates and conversions have no formalized policy to control the implementation. We recommend the development of formal change management standards, policies and procedures that include the following:

1. A system development lifecycle should be developed to facilitate any internal software development projects.
2. Development of a documented process/policy identifying the method used for tracking all upgrade or maintenance requests, so the originating source and description of the request is defined as well as a method to track when updates have been installed and by whom.
3. Define test standards and confirm testing of the modification prior to implementation in a test environment. Document test scripts and results if a test environment is not available. Verify production environment after implementation to confirm the proper installation and completeness of data.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

Information Technology Controls (continued)

Logical and Physical Access Security

The City is highly reliant on critical systems (such as JD Edwards) and the security that governs them. While logical restrictions are in place, such as requiring a unique ID and password to access the system, best practices indicate that other steps are necessary to ensure the integrity of data. We recommend the following:

1. Enforce length and character restrictions for passwords on the network and significant financial applications. Length and character restrictions provide an additional level of security to help protect data and systems. Best Practices suggest passwords should be changed every 45-90 days, require a minimum of 6 characters, require strong passwords (combination of alphanumeric, numeric and special characters), and passwords should be remembered so user's can't reuse recent passwords.
2. A standard form should be used to facilitate adding new employees, modifying existing employee access, and removing access for terminated employees. The form should include the approval that must be granted and documented by an authorized individual before any changes occur. The form(s) should also include both network and financial application access authorizations.
3. The access rights for all employees should be reviewed at least once a year by management to ensure users don't have access beyond their job responsibilities and segregation of duties is maintained when possible.
4. Only a few specific IT personnel should have access to move programs to production. The list of people with this ability should be known and reviewed and document at least annually.
5. The server room should be locked and only a select few personnel should have access to the Server room. The list of people with access should be documented reviewed at least annually.

IT Services Outsourced to a Third Party

Ensure that third party vendors providing services that could directly relate to the financials have secure controls in place. We recommend the following:

1. All 3rd party service providers should provide a SAS 70 to validate their services and controls are reputable, safe, and secure.

OTHER COMMENTS AND RECOMMENDATIONS (continued)

DEPARTMENTAL CONTROLS

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the City. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the City are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the City are supported by smaller systems which are decentralized, and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the Village Treasurer. In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system.

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it is usually very difficult to provide for proper segregation of duties. Therefore, with one person being involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. Examples in your City that may fit this situation may include the following:

- Recreation
- Police department
- Library

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. Departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. Yet, because of the lack of segregation of duties, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the departments mentioned above. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

Without adding staff or splitting up the duties, your own day-to-day contact and knowledge of the operation are also important mitigating factors.

ECONOMIC CONDITIONS AND YOUR COMMUNITY

At the present time, economic conditions for the nation as a whole have declined. Your community may or may not be impacted by the current economic conditions to a large extent, however, there are certain issues that communities now face that have not been present in recent years. It is important that you proactively address these issues to positively position your community for future fiscal viability and soundness.

Risk of Bank Failures

Cash deposits and investments held at financial institutions that are uninsured or uncollateralized are subject to a higher degree of risk if a financial institution were to fail. In other words, a portion of a community's deposits or investments could be lost if a bank failure were to occur.

Many communities obtain additional insurance or collateral above the FDIC limit. Collateral pledged by a financial institution should be reviewed on a regular basis to ensure that:

- > Investments backing the collateral are made up of highly-rated securities
- > Market value of the collateral equals or exceeds deposits held at the financial institution
- > Collateral pledged by the financial institution is held by a third party

Uninsured or uncollateralized deposits and investments are disclosed in the footnotes to the financial statements.

Tightening Credit Market

A community's ability to secure long-term financing is becoming more difficult as lenders have tightened the credit market.

Many communities have issued anticipation notes or bonds with a balloon payment with the intention of refinancing when the large payments come due. Financing that can be obtained may be at a higher interest rate, increasing interest costs to communities over the term of the debt.

Most revenue bonds contain debt covenants that require a certain level of operating income or cash that is set aside for future debt payments. Noncompliance with debt covenants may result in the inability to secure additional financing or may trigger bondholders to demand payment. Often these covenants require an independent assessment of the approach to financial management including a review of operations relative to expenditure oversight and revenue management. An independent third party review can provide valuable insight to enhance the rigor of fiscal management and provide confidence that debt is incurred for the right reasons.

State Budget Issues

As has been the case for several years, the State of Wisconsin has imposed levy limits on local governments, which confine increases in tax levies to a certain percentage of the prior year's levy adjusted for growth and recent debt issues. Due to these limits it is critical for communities to thoroughly evaluate what resident service priorities are, and specifically how limited resources are aligned to meet these priorities. Additionally, a comprehensive understanding of how to optimize all resources to meet regulatory and compliance requirements is necessary. Organizational assessments, budget reduction exercises and process reengineering initiatives can play a key role to position your community to "do more (or the same), with less".

ECONOMIC CONDITIONS AND YOUR COMMUNITY (continued)

State budget deficits may also affect the amounts of state and federal aids and grants that are available and paid to local governments.

Increase in Delinquencies

Communities may experience a higher rate of delinquencies on utility bills, tax bills, and loans as a result of increasing unemployment. While delinquent tax and utility bills are usually paid in full by the county, economic development and housing loans have a greater risk of default. Collections on loans made to businesses and homeowners that file for bankruptcy become very minimal.

Development and Tax Base

Business and housing development may be experiencing a significant downturn in your community. Decreases in development will likely affect revenues related to this industry such as inspection permits and TIF increments. It is important to recognize what types of effects the declining development market will have on the finances of local governments.

Also, while development may be slow given economic conditions, now is the time when municipalities should play a pivotal role in strategizing about what development makes the most sense for their community. This is true both in terms of aligning development projects with long-range comprehensive plans, but more importantly essential as it relates to targeting public investment in a way that produces catalytic projects with the most opportunity to expand your tax base. Scarce private capital heightens the interest of private concerns in gaining public funding for projects. Assessment of whether projects align with your development strategy, the actual economic impact (tax and non-tax), and the best way to layer multiple public and private sources is imperative to positioning your community to come out of this economic decline favorably.

Financial Management

It is critical that local governments continue to practice sound financial management strategies to help weather the current economic conditions, such as:

- > Preparing annual budgets that are realistic and accurate
- > Monitoring compliance with the annual budget based on financial records that are accurate and understandable
- > Making amendments to the budget when necessary and determining sources of revenues to cover additional appropriations
- > Developing a fund balance policy to ensure that your community has enough reserves on hand for emergency appropriations
- > Forecasting cash flows as a result of changing economic conditions and developing a plan to address significant issues
- > Forecasting capital needs and anticipated financing available
- > Monitoring your community's debt capacity compared to the limit established by the state
- > Thinking outside the box regarding ways to confine costs, such as consolidation of services with other local governments
- > Developing investment policies that address collateralization of deposits and investments

Your community's long-term success is important. As a governing body, your involvement and understanding of your community's financial activities will help you make informed decisions regarding the future of your community. Please feel free to contact us if you have questions – we are happy to discuss these topics in further detail.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with Government Auditing Standards, our report will contain the following restriction: "This report is intended solely for the information and use of the client's management, others within the city, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the city council has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (continued)

Also, is there anything that we need to know about the attitudes, awareness, and actions of the (city, village, town, county) concerning:

- a. The city's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary audit work during the months of October-December, and sometimes early January. Our final fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, OMB Circular A-133 and the State Single Audit Guidelines

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards, OMB Circular A-133, and the State Single Audit Guidelines. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the City Council of their responsibilities.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether the City of Waukesha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about the City of Waukesha's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City of Waukesha's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Waukesha's compliance with those requirements.

Other Information in Documents Containing Audited Financial Statements

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing discussed with management in planning the audit and previously communicated to you in our letter about planning matters submitted to you in December 2009.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Qualitative Aspect of Accounting Policies

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for doubtful accounts is based on an analysis of the collectivity of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.
- Accrued compensated absences are based on anticipated future retirement levels and an average wage per hour based on the current retirees' salaries.
- Accrued claims for self-insurance are based on actual claims known at year end plus estimates of claims incurred but not reported.
- Post-employment life and healthcare insurance benefits' actuarial accrued liability which impacts the annual required contributions are based upon several key assumptions that are set by management with the assistance of an independent third party actuary. These assumptions include anticipated investment rate of return, health care cost trends, projected salary increases, mortality and certain cost amortization periods.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (continued)

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (continued)

Independence

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City that, in our professional judgment, may reasonably be thought to bear on our independence.

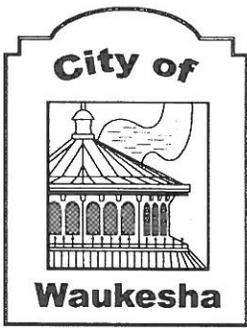
Relating to our audit of the financial statements of and for the year ended December 31, 2009, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the City and provided no services to the City other than services provided in connection with the audit of the current year's financial statements and the following non-audit services which in our judgment do not impair our independence:

- > Financial statement preparation
- > Adjusting journal entries
- > Preparation of Annual Report
- > Preparation of Department of Revenue Financial Report Form

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.



FINANCE DEPARTMENT

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TELEPHONE 262/524-3560 FAX 262/524-3555

Steve Neaman, Finance Manager

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July 19, 2010

Baker Tilly Virchow Krause, LLP
115 South 84th Street, Suite 400
Milwaukee, WI 53214

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Waukesha as of December 31, 2009 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waukesha and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the oversight unit and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
2. We have made available to you all –
 - a. Financial records and related data (and all audit or relevant monitoring reports, if any, received from funding sources.)
 - b. Minutes of the meetings of the Common Council or summaries of actions of recent meetings for which minutes have not yet been prepared.



3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and state awards.
5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.
11. The City of Waukesha has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
12. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the municipality is contingently liable.
 - c. All accounting estimates that could be material to the financial statements including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.



13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
14. There are no –
 - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations including those pertaining to adopting and amending budgets, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
 - e. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - f. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
15. The City of Waukesha has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
16. The City of Waukesha has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
17. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities.
20. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.



21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
22. Provisions for uncollectible receivables have been properly identified and recorded.
23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
26. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
27. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
28. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
29. We assume responsibility for, and agree with, the findings of specialists in evaluating the Other Post Employment Benefits and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
30. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
 - a. Financial statement preparation
 - b. Adjusting journal entries
 - c. SEFA preparation
 - d. Compiled regulatory reports



31. With respect to federal and state award programs –

- a. We are responsible for complying and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the State Single Audit Guidelines, and any other applicable laws and regulations and provisions of contracts and grant agreements.
- b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal and state awards, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, federal and state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, insurance and other assistance received for the purpose of administering federal and state programs. We have also made records available to you relating to such financial awards received directly, as well as indirectly, as pass-through awards.
- c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program.
- f. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.



31.(cont.)

- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement and the State Single Audit Guidelines, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have charged costs to federal and state awards in accordance with applicable cost principles.
- k. We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- l. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal and state awards.
- m. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- n. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and the State Single Audit Guidelines and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- o. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.



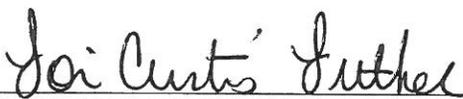
July 19, 2010

Page 7

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

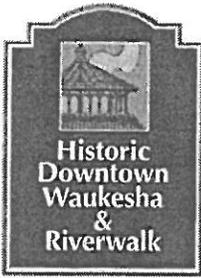
Sincerely,

City of Waukesha

Signed: 
Ms. Lori Curtis Luther, City Administrator

Signed: 
Mr. Stephen Neaman, Finance Manager





Waukesha Business Improvement District

802 North Grand Avenue, Waukesha, WI 53186

Phone: 262-549-6154 Fax: 262-549-6187

July 19, 2010

Baker Tilly Virchow Krause, LLP
115 South 84th Street, Suite 400
Milwaukee, WI 53214

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the books and records of City of Waukesha's Business Improvement District (BID) as of December 31, 2009 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position and changes in financial position and cash flows, where applicable, of the BID, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. We are responsible for the maintenance of the books and records of City of Waukesha's Business Improvement District in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. We confirm to the best of our knowledge and belief that all accounts and transactions of the BID are recorded in the books.
2. We have made available to you all -
 - a. Financial records and related data.
 - b. Minutes of the meetings of the BID board and summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. All known audit and bookkeeping adjustments have been included in our financial statements and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud, affecting the entity, received in communications from employees, former employees, analysts, regulators, or others.
9. The BID has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the municipality is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied and adequately disclosed.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no -
 - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations including those pertaining to adopting and amending budgets, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

- b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Reservations or designation of fund equity that were not properly authorized and approved.
- 13. The BID has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 - 14. The BID has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
 - 15. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
 - 16. The financial statements properly classify all funds and activities.
 - 17. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 - 18. Provisions for uncollectible receivables have been properly identified and recorded.
 - 19. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - 20. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 - 21. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
 - 22. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 - 23. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

July 19, 2010

Page 4

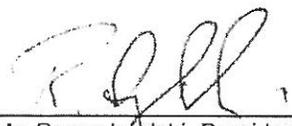
24. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
 - a. Financial statement preparation
 - b. Adjusting journal entries.
25. We have identified to you any previous financial audits, attestation engagements, performance audits, other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Sincerely,

CITY OF WAUKESHA BUSINESS IMPROVEMENT DISTRICT

Signed: 
Ms. Karen Richards, Executive Director

Signed: 
Mr. Roger Igielski, President